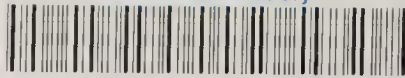


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AN ALTERNATIVE APPROACH TO TAXATION
OF LIGHT CARS AND TRUCKS IN MONTANA

Office of Research and Information
Montana Department of Revenue

July 15, 1996

AN ALTERNATIVE APPROACH TO TAXATION OF LIGHT CARS AND TRUCKS IN MONTANA

Introduction

Under current law, light cars and trucks are taxed for property tax purposes on the basis of "Blue Book" values. This requires re-establishing the value of each vehicle each year. Current approaches to simplifying the taxation of light cars and trucks in Montana have focused on applying a depreciation schedule to the manufacturer's suggested retail price (MSRP), and then applying a 2% tax rate to the depreciated value. This greatly simplifies taxation in that only one value is associated with each vehicle over its lifetime, the MSRP.

Recent attempts at this approach have generally applied a single, arbitrary depreciation schedule for all vehicle types over a ten-year period. While overall revenue neutrality is attainable under this approach, the use of a single depreciation schedule limited to a ten-year period results in shifts in tax liability between vehicle types, as well as between vehicle age groups.

This paper presents an alternative approach to taxing light cars and trucks that is designed specifically to optimize *property tax* revenue neutrality overall, across vehicle types, and across vehicle age groups. As the following analysis shows, this also results in a very high degree of property tax revenue-neutrality across counties in Montana, as well.

Also, previous proposals have attempted to maintain revenue neutrality overall for the combined revenue from both the new car sales tax and the property tax on used vehicles. This analysis recognizes that these are two fundamentally different taxes, and treats each separately. Revenue from the new car sales tax accrues to the state highway account, while revenue from the property tax on used vehicles is distributed to state and local governments in proportion to relative state and local mills levied on personal property.

Motor Vehicle Database

Data for the analysis was obtained from Department of Justice computer files on light cars and trucks. Once vehicles not pertinent to the analysis had been excluded from the database, a sample of one out of every five vehicles was drawn for the analysis. This resulted in a total of 117,327 observations in the sample data set. This extremely large sample was drawn to ensure statistical veracity overall; but also within vehicle types, across age groupings, and across counties.

New Car Sales Tax

Under current law "new" vehicles are taxed at the rate of 1.5% of market value, as specified by the dealer. In order to make the system of taxing motor vehicles as simple as possible,

this proposal applies the new car sales tax rate of 1.5% to the MSRP, rather than the market value as specified by the dealer, in order to maintain the principle of one value associated with each vehicle over the life of the vehicle. As the following analysis shows, this will result in a revenue loss for the new car sales tax.

Table 1 shows current law information for all vehicles in the database that paid new car sales tax in 1995. Almost 33,000 vehicles paid new car sales tax. These vehicles had a total market value of \$631 million and paid \$9.2 million in tax, for an effective tax rate of 1.46 percent. (The effective rate is below 1.5% because new vehicles registered as part of rental fleets are taxed at 0.75%, and certain other vehicles are taxed on rates prorated relative to 1.5% depending on the calendar quarter in which they are purchased. The effective rate is lowest for passenger cars, probably because a larger proportion of these vehicles are registered as part of rental fleets.)

Table 1
Current Law New Car Sales Tax Data

<u>Vehicle Type</u>	<u>Number</u>	<u>Market Value</u>	<u>CL Sales Tax</u>	<u>Effective Tax Rate</u>
Passenger Car	12,995	230,535,481	3,276,628	1.42%
Light Trucks	12,435	231,288,275	3,439,183	1.49%
Vans	2,785	55,313,771	807,028	1.46%
Sports-Utility	4,725	113,873,496	1,694,531	1.49%
All Vehicles	32,940	631,011,023	9,217,370	1.46%

Table 2 shows the revenue that would be generated if the effective new car sales tax rate was applied to the vehicle's MSRP. Revenue is reduced across all vehicle types, but particularly so for light trucks, where the revenue loss approaches a half a million dollars and represents a nearly 12% reduction.

Table 2
New Car Sales Tax Revenue Loss Using MSRP and Current Law Tax Rate

<u>Vehicle Type</u>	<u>MSRP</u>	<u>PL Sales Tax</u>	<u>Change in Tax</u>	<u>% Change</u>
Passenger Car	227,370,465	3,231,643	(44,985)	-1.37%
Light Trucks	203,965,700	3,032,905	(406,278)	-11.81%
Vans	53,882,385	786,144	(20,884)	-2.59%
Sports-Utility	107,617,425	1,601,436	(93,095)	-5.49%
All Vehicles	592,835,975	8,659,735	(557,635)	-6.05%

Table 3 shows the total number of vehicles paying new car sales tax in 1995, and the number and percentage of new cars whose current law market value used for tax purposes is greater than the vehicle's MSRP. Nearly two-thirds of all vehicles have an MSRP that is lower than the value currently used for tax purposes. For trucks, 86% have an MSRP that is lower than the value currently used for tax purposes. Apparently, trucks command a premium price in Montana relative to the MSRP.

Table 3
New Cars with Current Law Market Value Greater Than MSRP

<u>Vehicle Type</u>	<u>Number</u>	<u>Number With Market Value Greater Than MSRP</u>	<u>Percent With Market Value Greater Than MSRP</u>
Passenger Car	12,995	6,035	46%
Light Trucks	12,435	10,700	86%
Vans	2,785	1,385	50%
Sports-Utility	4,725	3,140	66%
All Vehicles	32,940	21,260	65%

The following general observations can be made with respect to a proposal for applying the new car sales tax to MSRP:

- 1) ***two-thirds of all new vehicles, and 86% of light trucks, have an MSRP that is lower than the market value currently used for new car sales tax purposes, and, consequently;***
- 2) two-thirds of all new vehicles, and 86% of light trucks, would experience a reduction in tax liability if the current law new car sales tax rate is applied to MSRP;
- 3) applying the current law new car sales tax rate to MSRP results in a tax reduction of about \$560,000 annually to owners of new cars (at current prices and buying rates), and a similar reduction in revenue to the state highway accounts; and
- 4) applying the new car sales tax to MSRP would require an increase in the tax rate from 1.5% to 1.55% to maintain revenue neutrality.



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Property Tax on "Used" Vehicles

Currently, used motor vehicles are taxed at 2% on the basis of current year market value, where market value is measured by the average trade-in or wholesale value contained in annual editions of the N.A.D.A. Official Used Car Guide (Blue Books). This requires the annual reassessment of vehicles for tax purposes. Recent proposals to simplify the system of taxing motor vehicles contemplates the use of a single value, the MSRP, for the life of the vehicle, coupled with an appropriate depreciation schedule and tax rate to achieve revenue neutrality.

Recent analyses to achieve this goal have generally utilized an arbitrary, ten-year depreciation schedule applied to all vehicles, regardless of type. This has always resulted in a certain amount of shifting of liability not only between vehicle types but also across vehicle age groups. The goal of the current proposal is to minimize this shifting of liability, with the attendant goal of also minimizing the impact across local governments.

The underlying notion behind the approach taken here is that if separate depreciation schedules for each vehicle type can be developed that reflect current market conditions, then no shifting of liability should occur. Separate depreciation schedules for each vehicle type should minimize shifting across vehicle types. Also, if the proposed depreciation schedules cover a sufficient number of years, then shifting of liability across vehicle age groups should also be minimized.

In other words, the proposed depreciation schedules should mirror the current market depreciation schedules as accurately as possible, while maintaining revenue neutrality. To determine the current depreciation schedules implicitly defined by Blue Book values, note that current law tax liability is defined as the product of market value and the tax rate:

$$\text{CL TAX} = \text{MARKET VALUE(MV)} \times \text{TAX RATE (2\%)}$$

Note also that the proposed law liability is defined as the product of MSRP, the depreciation rate, and the tax rate:

$$\text{PL TAX} = \text{MSRP} \times \text{DEPRECIATION RATE (DR)} \times \text{TAX RATE (2\%)}$$

Revenue neutrality requires equating current law tax with proposed law tax:

$$0.02\text{MV} = 0.02(\text{MSRP})(\text{DR})$$

Canceling the tax rate from both sides of the equation, and rearranging terms results in the formula for the current revenue-neutral depreciation rate:

$$\text{DEPRECIATION RATE} = \text{MARKET VALUE/MSRP}$$

In other words, the current market conditions depreciation schedule for each vehicle is simply the ratio of its current market value divided by its original MSRP. The average depreciation schedule for each vehicle type is determined by taking the ratio of total market value to total MSRP for each year of data available in the Department of Justice database (up to 17 years). Table 4 shows, by vehicle type, the ratio of total market value to total MSRP for a 17-year period. Figure 1, following page, provides a chart of the depreciation schedules from Table 4.

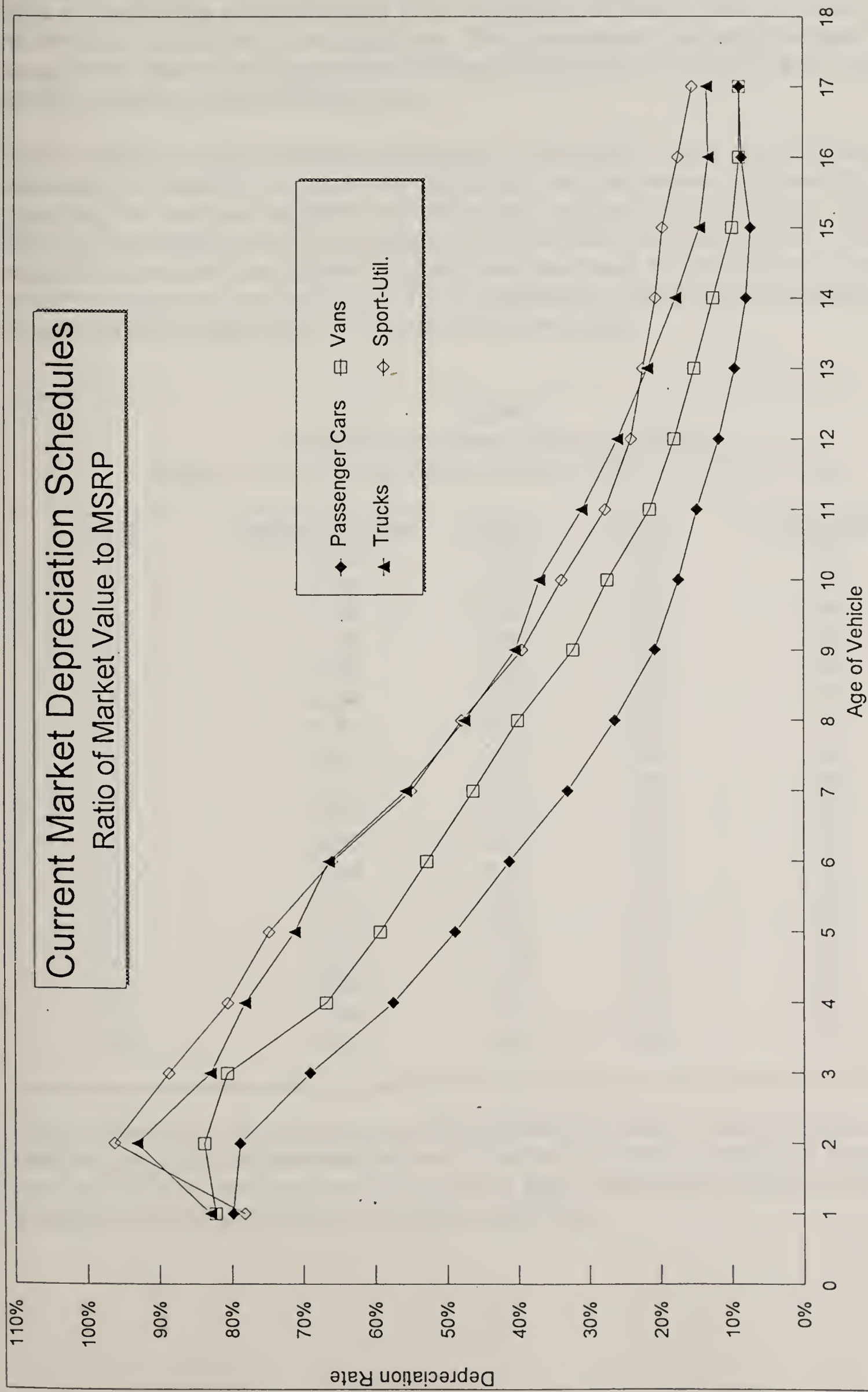
Table 4
Current Market Conditions Depreciation Schedule
Measured as the Ratio of Market Value to MSRP, by Vehicle Type

<u>Year</u>	<u>Passenger Cars</u>	<u>Trucks</u>	<u>Vans</u>	<u>Sport-Utility</u>
1	0.81	0.83	0.82	0.78
2	0.79	0.93	0.84	0.96
3	0.69	0.83	0.81	0.89
4	0.57	0.78	0.67	0.80
5	0.49	0.71	0.59	0.75
6	0.41	0.66	0.53	0.66
7	0.33	0.56	0.46	0.55
8	0.26	0.48	0.40	0.48
9	0.21	0.40	0.32	0.39
10	0.17	0.37	0.27	0.34
11	0.15	0.31	0.21	0.28
12	0.12	0.26	0.18	0.24
13	0.09	0.22	0.15	0.22
14	0.08	0.18	0.13	0.21
15	0.07	0.14	0.10	0.20
16	0.09	0.13	0.09	0.17
17	0.09	0.13	0.09	0.15

Several observations can be drawn from Table 4 and Figure 1. First, over the 17-year period available in the database it appears that vehicles currently depreciate to approximately 10% of their value after 13 to 17 years, depending on vehicle type. Sport-utility vehicles depreciate to 15% of their value after 17 years. (Previous proposals had all vehicles depreciating to about 10% of their value after only ten years, resulting in a revenue shift away from older to newer vehicles; particularly trucks, which are still worth 37% of their MSRP after 10 years, on average.)

Second, it is apparent that current market conditions provide for significantly different rates of depreciation, depending on the vehicle type. Passenger cars depreciate faster than other types of vehicles; vans depreciate slower than passenger cars, but faster than trucks and sport-utility vehicles, which depreciate at about the same rate.

Figure 1



Finally, with the exception of passenger cars, all vehicles, on average, depreciate to about 80% of their value in the first year after purchase, but then increase in value relative to MSRP in the second year after purchase. This phenomenon can only be characteristic of current Blue Book and Department of Revenue depreciation practices and standards, as MSRP remains constant through time.

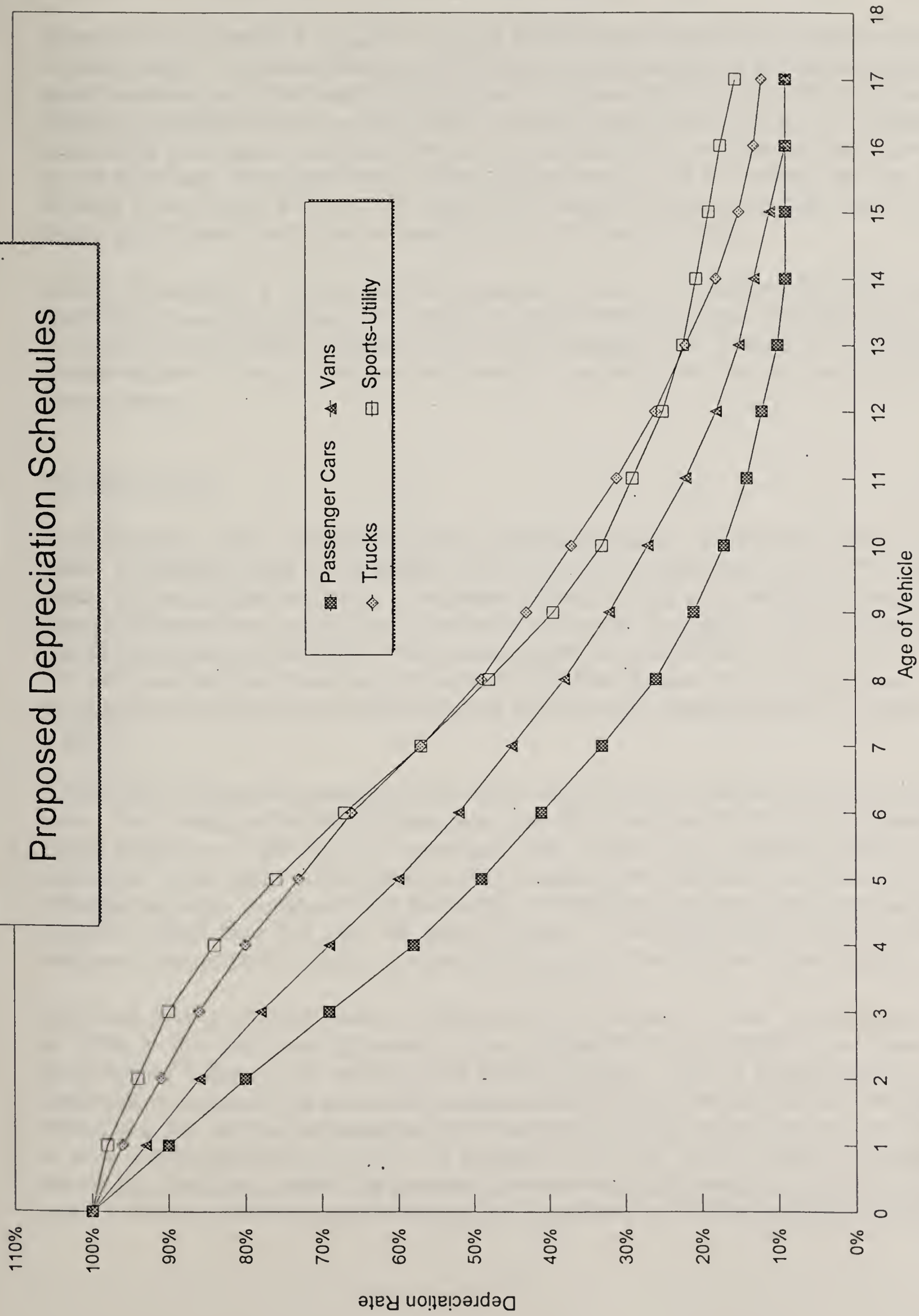
Once current market condition depreciation schedules had been estimated, it was necessary to develop proposed law depreciation schedules that appeared logical while providing for revenue neutrality overall, across vehicle types, and across age groups. Smooth curves that provided for taxation at 100% of MSRP for new cars, and a depreciated value for used cars that declined logically over time were fit to the actual current market condition depreciation schedules. These depreciation schedules are presented in Table 5, and are shown graphically in Figure 2 (following page).

Table 5
Proposed Law Depreciation Schedules
Based on the Ratio of Market Value to MSRP, by Vehicle Type

<u>Year</u>	<u>Passenger Cars</u>	<u>Trucks</u>	<u>Vans</u>	<u>Sport-Utility</u>
0	1.00	1.00	1.00	1.00
1	0.90	0.96	0.93	0.98
2	0.80	0.91	0.86	0.94
3	0.69	0.86	0.78	0.90
4	0.58	0.80	0.69	0.84
5	0.49	0.73	0.60	0.76
6	0.41	0.66	0.52	0.67
7	0.33	0.57	0.45	0.57
8	0.26	0.49	0.38	0.48
9	0.21	0.43	0.32	0.39
10	0.17	0.37	0.27	0.33
11	0.14	0.31	0.22	0.29
12	0.12	0.26	0.18	0.25
13	0.10	0.22	0.15	0.22
14	0.09	0.18	0.13	0.21
15	0.09	0.15	0.11	0.19
16	0.09	0.13	0.09	0.17
17+	0.09	0.12	0.09	0.15

The proposed law depreciation schedules follow the current market condition schedules with the general exception that the rate in the first year after purchase of a new car does not drop to 80% and then rise in the second year. Depreciation rates consistently drop throughout the proposed law depreciation schedules.

Proposed Depreciation Schedules



Results of the Proposed Law Depreciation Schedules

Attachments 1 through 4 show the impacts that this approach has on light car and truck property taxes. As those attachments indicate, the presumption that separate market-based depreciation schedules extending over a 17-year period of time result in little or no shifting of tax liability across vehicle type, or vehicle age group is borne out. The share of total liability paid across vehicle types, and age groups does not change from current law to the proposal. No vehicle type, within any age group, has an average tax per vehicle change of more than \$4, and the largest percentage change in average tax of -9% for trucks age 16 years and older represents only a \$1 change in tax.

Finally, Attachment 4 shows that this approach is also very close to providing revenue neutrality across all counties. The dollar and percentage changes in liability from county to county are very small, resulting in very small average dollar changes in tax liability per vehicle as well. Overall, this approach results in property tax revenue neutrality from all perspectives.

"Spiking" Issues

As discussed earlier, new vehicles are subject to a new car sales tax of 1.5% of market value. In following years these vehicles are subject to property tax equal to 2% of market value. Generally, this results in an increase in the tax paid on a vehicle in the year after being purchased new, which has come to be known as "the spike." For example, take a new car purchased for \$15,000. The new car sales tax is \$225 ($\$15,000 \times 1.5\% = \225). The next year the Blue Book value drops to \$12,000 but because the vehicle is now subject to an entirely different tax, the property tax, the tax bill increases to \$240 ($\$12,000 \times 2\% = \240).

Attachment 5 illustrates spiking effects under current law and under the proposal presented here. The average effective tax rates are relative to the price of the car purchased new. Spike effects are illustrated for passenger cars, trucks, and sport/utility vehicles. For passenger cars, under current law, a spike occurs in the year after purchase, and while effective tax rates continue to fall thereafter, the effective tax rate in the second year still remains higher than the new car sales tax rate. A similar pattern occurs under the proposal, except that the spike is more pronounced in the first year after purchase.

For trucks and sport/utility vehicles a different pattern occurs. Under current law, there is a spike in the first year following a new car purchase, *but there is an even more pronounced spike in the second year after purchase*. This is attributable to current depreciation practices that provide for a depreciation factor of around 80% in the first year following a new vehicle purchase, but then increase the value in the second year following a new vehicle purchase to 93% on average for trucks, and to 96% on average for sport/utility vehicles. Under the proposal, there would continue to be a spike in the first year following a new car purchase, but there would be no further spiking in subsequent

years.

What this means is that *proposals that tie to MSRP will eliminate the issue of double spiking present in current practices*, as illustrated in Attachment 5. The first year spike will continue, but this issue is generally understood when it is explained that there are two separate taxes that apply to automobiles. It is the issue of the double spike, another increase in tax after the first year following the purchase of a new vehicle, that under current law is especially troubling to taxpayers.

Within the context of the current approaches being considered for adoption, including the approach presented here, there are only two solutions to the first year spike problem, neither of which has much appeal. First, the spike can be eliminated simply by increasing the new car sales tax to 2%—probably not a viable solution in today's political climate where tax increases are political anathema.

The second solution would be to drop the property tax depreciation rate for all vehicle types to 75% in the first year of property taxation, and reduce it in every year thereafter. This however, would cause a dramatic shift in tax liability away from vehicles age 1 to 5 years old to older vehicles. Table 4 highlights this shift. Current market conditions do not reduce the depreciation rate on passenger cars to below 75% until year 3; for trucks and sport-utility vehicles this rate isn't reached until year 5; and for vans the depreciation rate isn't below 75% until year 4. The reform approach presented in this paper was designed specifically to ameliorate complaints that earlier approaches had resulted in large shifts in liability between vehicle types and age groups. Reducing the depreciation rate in the first year of the property tax to 75% would be contrary to these goals.

In short, within the context of approaches that incorporate depreciation schedules tied to MSRP, the spike issue can be resolved, but not without creating other, perhaps less palatable, issues.

**ESTIMATED CURRENT AND PROPOSED PROPERTY TAX
BY VEHICLE TYPE AND AGE GROUP, TAX YEAR 1995**

BY VEHICLE TYPE

Vehicle Type	Current Law Tax	% of CL Tax	Proposed Law Tax	% of PL Tax	Change in Tax	% Change in Tax
Passenger Car	25,622,306	43%	25,629,065	43%	6,759	0.03%
Truck	20,345,278	34%	20,375,124	34%	29,846	0.15%
Van	4,930,528	8%	4,920,095	8%	(10,433)	-0.21%
Other	8,580,742	14%	8,596,369	14%	15,627	0.18%
Total	59,478,854	100%	59,520,653	100%	41,799	0.07%

BY AGE GROUP

Vehicle Age Group	Current Law Tax	% of CL Tax	Proposed Law Tax	% of PL Tax	Change in Tax	% Change in Tax
1 - 5 Yrs. Old	36,473,518	61%	36,732,240	62%	258,722	0.71%
6 - 10 Yrs. Old	18,122,555	30%	17,919,815	30%	(202,740)	-1.12%
10 - 15 Yrs. Old	4,181,485	7%	4,187,919	7%	6,434	0.15%
>15 Yrs. Old	701,296	1%	680,679	1%	(20,617)	-2.94%
Total	59,478,854	100%	59,520,653	100%	41,799	0.07%

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**DISTRIBUTION OF NUMBER OF VEHICLES
BY TYPE AND AGE - PROPERTY TAX**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	79,010	111,380	78,410	22,640	291,440
Truck	50,605	59,940	47,855	20,575	178,975
Van	12,910	13,985	5,470	1,780	34,145
Other	17,420	15,995	11,885	3,835	49,135
Total	159,945	201,300	143,620	48,830	553,695

**DISTRIBUTION OF CURRENT LAW PROPERTY TAX
BY TYPE AND AGE**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	15,604,467	8,055,950	1,684,314	277,575	25,622,306
Truck	11,896,294	6,439,315	1,699,170	310,499	20,345,278
Van	3,247,293	1,493,896	170,227	19,112	4,930,528
Other	5,725,464	2,133,394	627,774	94,110	8,580,742
Total	36,473,518	18,122,555	4,181,485	701,296	59,478,854

**DISTRIBUTION OF PROPOSED LAW PROPERTY TAX
BY TYPE AND AGE**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	15,750,373	7,888,316	1,701,341	289,035	25,629,065
Truck	11,949,562	6,459,361	1,683,411	282,790	20,375,124
Van	3,287,222	1,442,560	171,069	19,244	4,920,095
Other	5,745,083	2,129,578	632,098	89,610	8,596,369
Total	36,732,240	17,919,815	4,187,919	680,679	59,520,653

**CHANGE IN PROPERTY TAX
BY TYPE AND AGE**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	145,906	(167,634)	17,027	11,460	6,759
Truck	53,268	20,046	(15,759)	(27,709)	29,846
Van	39,929	(51,336)	842	132	(10,433)
Other	19,619	(3,816)	4,324	(4,500)	15,627
Total	258,722	(202,740)	6,434	(20,617)	41,799

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**CURRENT LAW AVERAGE PROPERTY TAX
BY TYPE AND AGE**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	197	72	21	12	88
Truck	235	107	36	15	114
Van	252	107	31	11	144
Other	329	133	53	25	175
Total	228	90	29	14	107

**PROPOSED LAW AVERAGE PROPERTY TAX
BY TYPE AND AGE**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	199	71	22	13	88
Truck	236	108	35	14	114
Van	255	103	31	11	144
Other	330	133	53	23	175
Total	230	89	29	14	107

**DOLLAR CHANGE IN AVERAGE PROPERTY TAX
BY TYPE AND AGE**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	2	(2)	0	1	0
Truck	1	0	(0)	(1)	0
Van	3	(4)	0	0	(0)
Other	1	(0)	0	(1)	0
Total	2	(1)	0	(0)	0

**PERCENT CHANGE IN AVERAGE PROPERTY TAX
BY TYPE AND AGE**

Vehicle Type	Age Group				Total
	1-5 Yrs. Old	6-10 Yrs. Old	11-15 Yrs. Ol	>15 Yrs. Old	
Passenger Car	1%	-2%	1%	4%	0%
Truck	0%	0%	-1%	-9%	0%
Van	1%	-3%	0%	1%	-0%
Other	0%	-0%	1%	-5%	0%
Total	1%	-1%	0%	-3%	0%

**Change in Total Property Tax, and Property Tax Per Vehicle
Separate, Market-Driven Depreciation Schedules for Each Vehicle Type
By County, Tax Year 1995**

County	# Vehicles	Current Law Tax	Proposed Law Tax	Change in Tax		
				Total	%	Per Vehicle
SILVER BOW	21,240	2,237,000	2,245,256	8,256	0.4%	0.39
CASCADE	45,345	4,732,220	4,762,949	30,729	0.6%	0.68
YELLOWSTONE	80,405	8,966,583	8,944,273	(22,310)	-0.2%	-0.28
MISSOULA	55,575	5,807,531	5,752,338	(55,193)	-1.0%	-0.99
LEWIS AND CLAR	34,255	3,698,597	3,673,493	(25,104)	-0.7%	-0.73
GALLATIN	38,180	4,243,296	4,170,722	(72,574)	-1.7%	-1.90
FLATHEAD	48,445	5,118,568	5,054,242	(64,326)	-1.3%	-1.33
FERGUS	8,405	851,007	860,788	9,781	1.1%	1.16
POWDER RIVER	1,730	204,022	209,363	5,341	2.6%	3.09
CARBON	6,675	723,906	729,179	5,273	0.7%	0.79
PHILLIPS	3,500	369,025	370,101	1,076	0.3%	0.31
HILL	9,785	1,057,030	1,074,005	16,975	1.6%	1.73
RAVALLI	20,970	2,137,893	2,106,844	(31,049)	-1.5%	-1.48
CUSTER	7,850	806,684	825,422	18,738	2.3%	2.39
LAKE	13,785	1,411,043	1,434,516	23,473	1.7%	1.70
DAWSON	6,615	704,921	715,882	10,961	1.6%	1.66
ROOSEVELT	4,260	486,304	499,904	13,600	2.8%	3.19
BEAVERHEAD	6,030	676,899	683,329	6,430	0.9%	1.07
CHOUTEAU	4,375	509,791	515,365	5,574	1.1%	1.27
VALLEY	5,725	648,125	654,708	6,583	1.0%	1.15
TOOLE	3,755	436,441	439,436	2,995	0.7%	0.80
BIG HORN	4,420	505,006	517,033	12,027	2.4%	2.72
MUSSELSHELL	3,145	326,660	328,899	2,239	0.7%	0.71
BLAINE	3,365	373,851	386,881	13,030	3.5%	3.87
MADISON	5,325	659,319	651,291	(8,028)	-1.2%	-1.51
PONDERA	3,980	431,421	434,976	3,555	0.8%	0.89
RICHLAND	7,720	829,678	844,019	14,341	1.7%	1.86
POWELL	3,955	410,180	409,182	(998)	-0.2%	-0.25
ROSEBUD	5,860	673,828	689,340	15,512	2.3%	2.65
DEER LODGE	6,215	615,630	618,735	3,105	0.5%	0.50
TETON	4,605	481,759	492,847	11,088	2.3%	2.41
STILLWATER	5,685	615,643	624,867	9,224	1.5%	1.62
TREASURE	715	78,841	83,760	4,919	6.2%	6.88
SHERIDAN	3,680	413,727	423,238	9,511	2.3%	2.58
SANDERS	6,475	614,935	619,853	4,918	0.8%	0.76
JUDITH BASIN	2,000	216,637	218,485	1,848	0.9%	0.92
DANIELS	1,800	209,782	215,877	6,095	2.9%	3.39
GLACIER	4,005	479,182	499,872	20,690	4.3%	5.17
FALLON	2,470	284,178	294,523	10,345	3.6%	4.19
SWEET GRASS	2,620	298,545	298,709	164	0.1%	0.06
MCCONE	1,930	224,060	224,602	542	0.2%	0.28
CARTER	1,130	119,631	123,307	3,676	3.1%	3.25
BROADWATER	2,845	300,717	304,759	4,042	1.3%	1.42
WHEATLAND	1,600	166,390	169,029	2,639	1.6%	1.65
PRAIRIE	1,130	118,749	121,224	2,475	2.1%	2.19
GRANITE	2,080	223,479	225,656	2,177	1.0%	1.05
MEAGHER	1,390	162,188	160,317	(1,871)	-1.2%	-1.35
LIBERTY	1,675	206,950	203,822	(3,128)	-1.5%	-1.87
PARK	11,005	1,176,394	1,170,999	(5,395)	-0.5%	-0.49
GARFIELD	1,110	131,266	133,517	2,251	1.7%	2.03
JEFFERSON	6,370	718,967	712,659	(6,308)	-0.9%	-0.99
WIBAUX	895	83,255	87,552	4,297	5.2%	4.80
GOLDEN VALLEY	695	74,645	79,685	5,040	6.8%	7.25
MINERAL	2,340	208,056	206,758	(1,298)	-0.6%	-0.55
PETROLEUM	535	58,569	60,359	1,790	3.1%	3.35
LINCOLN	12,020	1,159,850	1,161,910	2,060	0.2%	0.17
Totals	553,695	59,478,854	59,520,657	41,803	0.1%	0.08

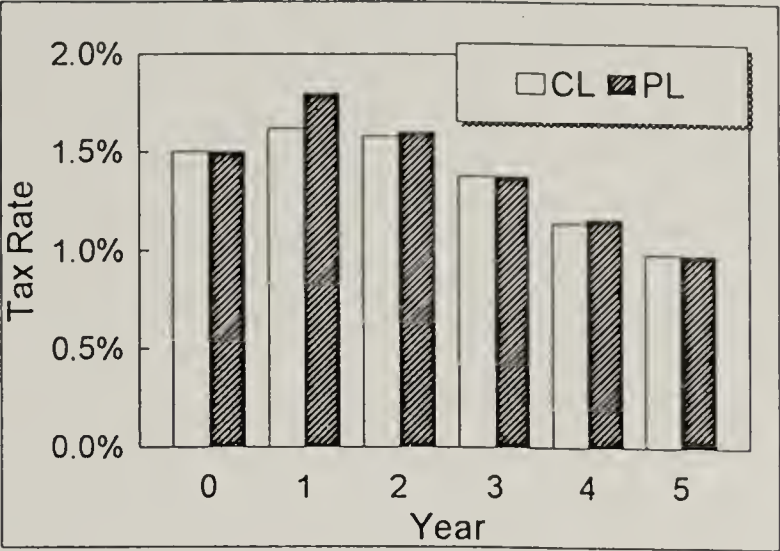
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**Illustration of Spiking Effects
Current Market Conditions v. Proposal**

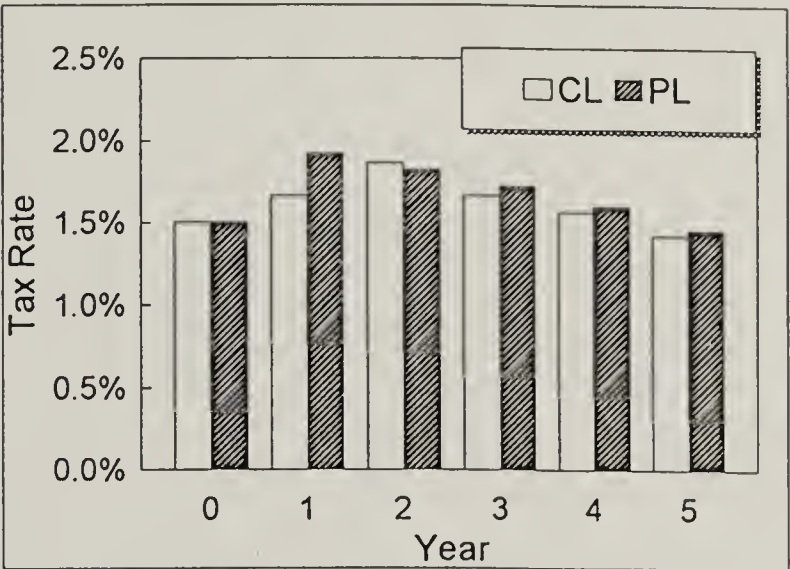
A. PASSENGER CARS:

Year	Depreciation Rate		Effective Tax Rate	
	CL	PL	CL	PL
0	1.00	1.00	1.50%	1.50%
1	0.81	0.90	1.62%	1.80%
2	0.79	0.80	1.58%	1.60%
3	0.69	0.69	1.38%	1.38%
4	0.57	0.58	1.14%	1.16%
5	0.49	0.49	0.98%	0.98%



B. TRUCKS:

Year	Depreciation Rate		Effective Tax Rate	
	CL	PL	CL	PL
0	1.00	1.00	1.50%	1.50%
1	0.83	0.96	1.66%	1.92%
2	0.93	0.91	1.86%	1.82%
3	0.83	0.86	1.66%	1.72%
4	0.78	0.80	1.56%	1.60%
5	0.71	0.73	1.42%	1.46%



C. SPORT/UTILITY VEHICLES:

Year	Depreciation Rate		Effective Tax Rate	
	CL	PL	CL	PL
0	1.00	1.00	1.50%	1.50%
1	0.78	0.98	1.56%	1.96%
2	0.96	0.94	1.92%	1.88%
3	0.89	0.90	1.78%	1.80%
4	0.80	0.84	1.60%	1.68%
5	0.75	0.76	1.50%	1.52%

